

December 2008

PRIM Board Update



Massachusetts Pension Reserves Investment Management Board

An Historic Year Comes to a Close

The best thing an investor can say about 2008 is that it's over. In the last 183 years, only one other year was worse in the stock market and that was 1931. The seeds for the "Risk Bubble Burst" of 2008 were sown in mid-2007 when the U.S. housing market began to decline, spurred by the subprime mortgage crisis that led to the credit crunch. The contagion spread to the stock market as liquidity dried up and once mighty, but hugely overleveraged, financial institutions began to fail. Consumer spending, which had been the linchpin of the U.S. economy, also contracted. A spike in home foreclosures and job losses also added to the dismal economic outlook. Stock-selling panic and a deepening recession prompted Congress, the Federal Reserve, and the U.S. Treasury to take unprecedented actions to staunch the bleeding. Although the months of September, October, and November wiped out years of investment gains for the small and large investor alike, there was some light at the end of 2008. U.S., international, and emerging markets stocks all rallied in December, as the Fed lowered a key interest rate to near zero and hopes of new economic stimulus plan mitigated some of the despair. In fact, the Fed and Treasury actions may have contained the credit crisis. To sum up 2008, the only asset class that worked was Government bonds; global stocks, hedge funds, commodities, and REITs were all down significantly.

Market Recap - December 31, 2008

Domestic Equity Markets:

<u>Index</u>	<u>Month</u>	<u>CYTD</u>
S&P 500 (ex-tob.)	1.11%	-37.19%
DOW	-0.39%	-32.00%
NASDAQ % Chg	2.70%	-40.54%
Russell 2000	5.80%	-33.79%
Russell 3000	1.91%	-37.32%

International & Emerging Markets Equities:

<u>Index</u>	<u>Month</u>	<u>CYTD</u>
MSCI EAFE	6.01%	-43.34%
MSCI EMF (net)	7.80%	-53.21%

Fixed Income, High Yield Bonds, & Other:

<u>Index</u>	<u>Month</u>	<u>CYTD</u>
Barclays Aggregate	3.73%	5.24%
ML HY Master II	7.11%	-26.11%
TIPS	4.96%	-2.35%
Hedge Fund Research	-0.18%	-19.95%
NCREIF (one qtr lag)	-0.17%	5.27%
NAREIT	16.39%	-37.73%

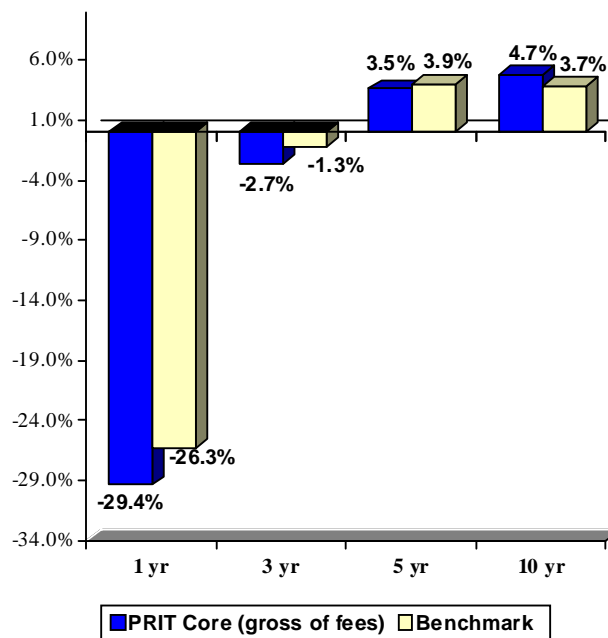
PRIT FUND ASSETS: \$37,775,275,000

PRIT Segmentation Recap - December 2008

<u>Portfolio</u>	<u>Month</u>	<u>1 Year</u>	<u>3 years</u>
PRIT CORE Total	1.03%	-29.44%	-2.67%
Domestic Equity	1.71%	-42.35%	-11.59%
International Equity	5.57%	-42.27%	-6.80%
Emerging Equity	7.60%	-55.47%	-8.64%
Total Fixed Income	3.43%	-5.23%	2.30%
Core Real Estate	-7.39%	-15.76%	4.66%
Absolute Return (net)	-1.79%	-18.95%	-0.22%

Absolute Return is Net of Fees. All other segments are Gross of fees. Domestic Equity includes Portable Alpha. Total Fixed Income includes TIPS and inflation-linked bonds-commodities. Timber - Natural Resources and High Yield Debt sleeves are not available through Segmentation.

PRIT Core Fund as of 12/31/08



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PENSION RESERVES INVESTMENT TRUST SUMMARY OF PLAN PERFORMANCE RATES OF RETURN (GROSS OF FEES) Periods Ending December 31, 2008											
	NAV \$ (M)	Long Term Target Allocation %	Actual Allocation %	Month	QTD	FY '09	1 Year	3 Year	5 Year	10 Year	Since Inception
DOMESTIC EQUITY	9,631,046	27.0%	25.5%	1.71	-26.14	-34.06	-42.35	-11.59	-3.69	-0.65	8.94
INTERNATIONAL EQUITY	6,628,869	20.0%	17.6%	5.57	-19.73	-36.65	-42.27	-6.80	2.12	3.78	7.38
EMERGING MARKETS	1,396,045	5.0%	3.7%	7.60	-30.36	-49.38	-55.47	-8.64	5.88	8.80	9.05
FIXED INCOME	3,796,860	10.0%	10.1%	3.67	2.96	-0.54	0.20	4.02	3.90	5.56	8.16
TIPS & ILB's COMMODITIES	954,247	3.0%	2.5%	2.48	-21.62	-38.43	-29.90	-7.07	-2.48		1.72
HIGH YIELD DEBT	2,679,761	6.0%	7.1%	0.04	-14.47	-18.95	-19.17	-0.51	3.52		6.40
ALTERNATIVE INVESTMENTS	4,295,659	9.0%	11.4%	-2.91	-4.69	-7.27	-4.99	19.25	23.67	14.50	14.77
REAL ESTATE	4,565,144	11.0%	12.1%	-7.39	-16.33	-16.71	-15.76	4.66	12.63	11.69	5.60
TIMBER/NATURAL RESOURCES	1,626,447	4.0%	4.3%	9.99	-1.91	-17.90	-17.20	6.46	11.65		11.76
ABSOLUTE RETURN (NET OF FEES)	2,124,598	5.0%	5.6%	-1.79	-9.39	-18.73	-18.95	-0.22			2.49
TOTAL	37,698,674	100%	100%	1.03	-16.33	-25.86	-29.45	-2.68	3.52	4.66	9.23
PARTICIPANTS CASH FUND	22,738			0.06	0.27	0.83	2.33	4.19	3.41	3.59	5.11
TOTAL CORE	37,721,413			1.03	-16.32	-25.84	-29.44	-2.67	3.53	4.66	9.33
<i>INTERIM POLICY BENCHMARK</i>				2.92	-14.66	-23.06	-26.34	-1.27	3.89	3.66	10.30
TEACHERS' AND EMPLOYEES' SEPARATE ACCOUNT	53,862			0.06	0.27	0.83	1.27	3.31	2.89	3.44	4.17
TOTAL FUND	37,775,275			1.03	-16.28	-25.80	-29.39	-2.66	3.53	4.66	9.31
POLICY RETURN				1.53	-15.50	-24.68	-28.05	-2.25	3.79	4.79	9.37
<i>POLICY BENCHMARK</i>				3.29	-14.14	-22.29	-25.53	-1.18	3.95	3.69	10.31